

**REPORT OF THE AUDIT OF THE  
ROWAN COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE ROWAN COUNTY SHERIFF**

**For The Year Ended  
December 31, 2005**

The Auditor of Public Accounts has completed the Rowan County Sheriff's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$9,651 from the prior year, resulting in excess fees of \$54,455 as of December 31, 2005. Revenues increased by \$50,049 from the prior year and expenditures increased by \$59,700.

#### **Report Comments:**

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The Sheriff Should Invest Funds In Interest-Bearing Accounts
- The Sheriff Should Make Daily Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

#### **Deposits:**

The Sheriff's deposits were fully covered by FDIC insurance or pledged collateral but no collateral security agreement as of December 31, 2005, and as of December 8, 2005, \$2,347,891 of the Sheriff's deposits were uninsured and uncollateralized.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Clyde Thomas, Rowan County Judge/Executive  
Honorable Jack Carter, Rowan County Sheriff  
Members of the Rowan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Rowan County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 30, 2006 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Clyde Thomas, Rowan County Judge/Executive  
Honorable Jack Carter, Rowan County Sheriff  
Members of the Rowan County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The Sheriff Should Invest Funds In Interest-Bearing Accounts
- The Sheriff Should Make Daily Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Rowan County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
June 30, 2006



ROWAN COUNTY  
JACK CARTER, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

Federal Grants	\$ 28,119
State - Kentucky Law Enforcement Foundation Program Fund	30,861
State Fees For Services:	
Finance and Administration Cabinet	167,412
Circuit Court Clerk:	
Fines and Fees Collected	205
Fiscal Court	84,194
County Clerk - Delinquent Taxes	2,194
Commission On Taxes Collected	259,069
Other Fees On Taxes Collected:	
Sheriff's Collection Fee - Advertised Taxes	29,898
Fees Collected For Services:	
Auto Inspections	5,600
Serving Papers	20,502
Carrying Concealed Deadly Weapon Permits	4,500
Other:	
Miscellaneous	3,098
Borrowed Money:	
State Advancement	<u>145,293</u>
Total Revenues	<u>780,945</u>

The accompanying notes are an integral part of this financial statement.

ROWAN COUNTY  
 JACK CARTER, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2005  
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 162,453

Part-Time Salaries 66,653

Other Salaries 106,320

Employee Benefits-

Employer's Share Social Security 29,276

Contracted Services-

Advertising 6,048

Professional Services 200

Materials and Supplies-

Office Materials and Supplies 8,203

Uniforms 10,781

Auto Expense-

Gasoline 3,959

Maintenance and Repairs 45,385

Other Charges-

Conventions and Travel 5,631

Dues 618

Postage 5,362

Communications 5,773

Bond 305

Carrying Concealed Deadly Weapon Permits 3,485

Miscellaneous 3,623

Computer Software 4,000

Transporting Prisoners 5,529

Paper Service to Fiscal Court 6,000

Capital Outlay-

Office Equipment 2,248

Office Furniture 963

Vehicle Equipment 2,356 \$ 485,171

Debt Service:

State Advancement 145,293

Vehicle Purchase Payments 3,642

Vehicle Lease Payments 18,128 167,063

Total Expenditures

652,234

The accompanying notes are an integral part of this financial statement.

ROWAN COUNTY  
 JACK CARTER, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2005  
 (Continued)

Net Revenues		\$	128,711
Less: Statutory Maximum			<u>71,861</u>
Excess Fees			56,850
Less: Training Incentive Benefit			<u>2,395</u>
Excess Fees Due County for 2005			54,455
Payments to Fiscal Court - March 21, 2006	\$	51,252	<u>51,252</u>
Balance Due Fiscal Court at Completion of Audit of Audit*		\$	<u><u>3,203</u></u>

\*NOTE: The Sheriff presented a check to the County Treasurer for the full amount due fiscal court on June 30, 2006.

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2005  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent for the first six months and 25.01 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the sheriff did not have a written agreement with the bank.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were adequately covered by FDIC insurance or pledged securities but no properly executed collateral security agreement, and as of December 8, 2005, \$2,347,891 of the Sheriff's bank balance of \$4,230,669 was exposed to custodial credit risk as follows:

- Uninsured and uncollateralized - \$2,347,891

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2005  
(Continued)

Note 4. Note Payable

On November 4, 2002, the Rowan County Sheriff's office entered into a note payable with U.S. Bank in the amount of \$13,155. The purpose of the note was to purchase a 1999 Chevrolet Blazer. The agreement requires 48 monthly payments of \$304 at an interest rate of 4.99%, to be paid in full on November 19, 2006. As of December 31, 2005, the principal amount outstanding was \$3,257.

Note 5. Leases

- A. On November 8, 2002, the Rowan County Sheriff's office entered into a lease agreement with U.S. Bank to lease a 2003 Dodge Durango. The agreement required 48 equal monthly payments of \$569 including interest to be paid in full on November 8, 2006. The total balance outstanding as of December 31, 2005 was \$6,259.
- B. On October 23, 2003 the Rowan County Sheriff's office entered into a lease agreement with Ford Motor Company to lease a 2004 Ford Crown Victoria. The agreement required 48 equal monthly payments of \$482 including interest to be paid in full on October 23, 2007. The total balance outstanding as of December 31, 2005 was \$10,604.
- C. On December 7, 2004, the Rowan County Sheriff's office entered into a lease agreement with U.S. Bank to lease a 2005 Ford Explore. The agreement required 60 equal monthly payments of \$458 to be paid in full on December 30, 2009. The total balance outstanding as of December 31, 2005 was \$21,984.
- D. On December 6, 2002, the Rowan County Sheriff entered into a lease agreement with Xerox to lease a copy machine as well as provide for maintenance and supplies for the Sheriff's office. The agreement requires 60 monthly base payments of \$204 plus additional charges if the maximum number of copies per month is exceeded.

Note 6. Grant

The Rowan County Sheriff's office was awarded a Domestic Violence Enforcement Grant in the amount of \$31,195. During the year, funds totaling \$28,119 were received and expended. The remaining funds not used by the Sheriff's office as of December 31, 2005, were considered forfeited and are no longer available.

## COMMENTS AND RECOMMENDATIONS





ROWAN COUNTY  
JACK CARTER, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2005

STATE LAWS AND REGULATIONS:

The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

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On December 8, 2005, \$2,347,891 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Sheriff's Response:*

*We will take sample copy of collateral agreement to bank.*

The Sheriff Should Invest Funds In Interest-Bearing Accounts

During our audit, it was determined that all funds were not deposited into an interest-bearing account. KRS 66.480 allows county officials to deposit public funds into interest-bearing accounts. We recommend that the Sheriff deposit all funds into an interest-bearing account.

*Sheriff's Response:*

*We will try to get an account set up with the bank that draws interest.*

The Sheriff Should Make Daily Deposits

Deposits are not being made each day as recommended by the Uniform System of Accounts. Receipts are being held and deposited days later. This often results in a delay of more than three business days before a day's receipts get posted to the bank statement. While we understand that the deposits being held are normally small, we recommend the Sheriff make daily deposits as recommended by the Uniform System of Accounts.

*Sheriff's Response:*

*We will try to make daily deposits. Days that we don't the money is locked in safe.*

ROWAN COUNTY  
JACK CARTER, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2005  
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION:

The Sheriff's Office Lacks Adequate Segregation Of Duties

We conclude the internal control structure lacks a proper segregation of duties. There is a limited staff size, which prevents adequate division of responsibilities. The Sheriff has statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements. However, having one person solely responsible for these duties compromises the internal control structure of the Sheriff's office. Having only one individual who is responsible for all duties increases the risk that misstatements or errors may occur and not be detected in a timely manner. We recommend that the following compensating controls be implemented to offset this internal control weakness.

- The Sheriff should mail checks.
- The Sheriff should compare the bank reconciliation to the balance in the checkbook. Any difference should be reconciled. The Sheriff could document this by initialing the bank reconciliation and beside the balance in the checkbook.

*Sheriff's Response:*

*I will do this in future.*

INTERNAL CONTROL - MATERIAL WEAKNESS:

None.

PRIOR YEAR:

The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$650,578 And Enter Into A Written Agreement To Protect Deposits

The Sheriff's Office Lacks Adequate Segregation Of Duties

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Clyde Thomas, Rowan County Judge/Executive  
Honorable Jack Carter, Rowan County Sheriff  
Members of the Rowan County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Rowan County Sheriff for the year ended December 31, 2005, and have issued our report thereon dated June 30, 2006. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rowan County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Rowan County Sheriff's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The Sheriff Should Invest Funds In Interest-Bearing Accounts
- The Sheriff Should Make Daily Deposits

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
June 30, 2006

